

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 2177 - SB 2184

March 1, 2016

SUMMARY OF BILL: Prohibits a healthcare payor, when determining any gain-sharing or risk-sharing for a physician, from attributing to the physician any costs for healthcare services that were provided by individuals or entities outside of the control of the physician or the physician's group practice if including the costs reduces a physician's gain-sharing amount or increases a physician's risk-sharing amount. These restrictions do not apply to a physician who is providing healthcare services in the TennCare program pursuant to a freely negotiated risk-sharing contract between the healthcare payor and an accountable care organization, clinically integrated network, or other similar entity organized to provide such healthcare services on a risk-sharing basis.

ESTIMATED FISCAL IMPACT:

**Increase State Expenditures – Exceeds \$3,501,700/FY16-17
Exceeds \$3,666,300/FY17-18
Exceeds \$3,871,100/FY18-19 and Subsequent
Years**

**Increase Federal Expenditures – Exceeds \$6,498,300/FY16-17 and
Subsequent Years**

**Increase Local Expenditures – Exceeds \$11,300/FY17-18
Exceeds \$25,400/FY18-19 and Subsequent
Years**

Assumptions:

- Based on information provided by the Department of Finance and Administration, Division of Benefits Administration and the Bureau of TennCare, the proposed legislation would not allow the Department or the Bureau to participate in the value-based payment approaches established by Tennessee Health Care Innovation Initiative (THCII).
- THCII qualifies as an alternative payment system under the provisions of the proposed legislation. Only one of Benefits Administration's carriers has a contract with the Bureau of TennCare that will be impacted by the proposed legislation. The gain-sharing

payment and risk-sharing payment for episodes of care will not be implemented until FY17-18.

- It is estimated the proposed legislation will result in a loss of savings equivalent to one percent per episode in a given wave. The first commercial state wave total is estimated to be \$56,672,952 for calendar year 2017 and the second commercial state wave total is estimated to be \$59,160,540 for calendar year 2018.
- The total projected loss of savings for wave one is estimated to be \$283,365 $(\$56,672,952 \times 0.50 \times 0.01)$ in FY17-18. It is estimated there will be a 20 percent increase in the loss of savings from year one to year two for wave one.
- The total projected loss of savings for wave two is estimated to be \$635,840 $[(\$56,672,952 \times 0.50 \times 0.01) + (\$283,365 \times 0.20) + (\$59,160,540 \times 0.50 \times 0.01)]$ in FY18-19.
- Of the total projected loss of savings, 52 percent would be realized by the State Employee plan, 40 percent by the Local Education Plan, and 8 percent by the Local Government Plan.
- According to Benefits Administration, the state contributes 80 percent of member premiums resulting in an increase in state expenditures of at least \$117,880 $(\$283,365 \times 0.80 \times 0.52)$ in FY17-18 and an increase in state expenditures of at least \$264,510 $(\$635,840 \times 0.80 \times 0.52)$ in FY18-19.
- According to Benefits Administration, the state contributes 45 percent of instructional member premiums (75 percent of Local Education Plan members) and 30 percent of support staff member premiums (25 percent of Local Education Plan members) resulting in an increase in state expenditures of at least \$46,755 $[(\$283,365 \times 0.40 \times 0.75 \times 0.45) + (\$283,365 \times 0.40 \times 0.25 \times 0.30)]$ in FY17-18 and an increase in state expenditures of at least \$104,914 $[(\$635,840 \times 0.40 \times 0.75 \times 0.45) + (\$635,840 \times 0.40 \times 0.25 \times 0.30)]$ in FY18-19.
- It is estimated the total projected loss of savings is estimated to be \$164,635 $(\$117,880 + \$46,755)$ in FY17-18 and \$369,424 $(\$264,510 + \$104,914)$ in FY18-19.
- As episodes of care are added, the fiscal impact will increase each year, resulting in a loss of estimated savings exceeding \$369,424 in FY19-20 and subsequent years.
- The state does not contribute to the Local Government plan. Benefits Administration projects that participating agencies and their employees will have to compensate for \$22,669 savings in FY17-18 and \$50,867.
- The average local government contribution to member premiums is unknown. It is estimated that participating local governments contribute 50 percent to member premiums and that participating local government expenditures will increase by at least \$11,335 $(\$22,669 \times 0.50)$ in FY17-18 and \$25,434 $(\$50,867 \times 0.50)$ in FY18-19 and subsequent years.
- Based on information provided by the Bureau of TennCare, the projected a loss of savings is estimated to be approximately \$10,000,000 in FY16-17 and each year thereafter.
- These expenditures receive federal matching funds of 64.983 percent; therefore, the state expenditures will be 35.017 percent.
- The recurring increase in state expenditures through TennCare is estimated to exceed \$3,501,700 $(\$10,000,000 \times 0.35017)$ in FY16-17 and subsequent years.

- The recurring increase in federal expenditures through TennCare is estimated to exceed \$6,498,300 ($\$10,000,000 \times 0.64983$) in FY16-17 and subsequent years.
- The total recurring increase in state expenditures is estimated to exceed \$3,666,335 ($\$3,501,700 + \$164,635$) in FY17-18 and \$3,871,124 ($\$3,501,700 + \$369,424$) in FY 18-19 and subsequent years
- The recurring increase in federal expenditures is estimated to exceed \$6,498,300 in FY16-17 and subsequent years.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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